

## 8. The seven-pointed star

'Federation is a 'compromise between nationality and democracy'.

*L. F. Giblin*

It was the Great Depression that brought the four to Canberra. It was a budget crisis that they grappled with. But they were soon engaged with a more enduring and more expressly political problem that had been made manifest by the slump: a general incapability of the federal Australian polity that had been created in 1901.

The new state had two weaknesses.

The first was that Australia was both a democracy and an agglomeration. Like any democratic agglomeration, it experienced a tension between the aspiration to unity, and the fact of inequality. Federation was intended to cope with this tension. But under the stress of the Depression, it became an open question as to whether the principle of Federation would contain the tension or succumb to it. In the pit of depression Federation was in crisis, as Australia experienced attempts to proclaim new states and more lawful attempts by existing states to secede from the Commonwealth. The sole doctrinal counterforce to these pressures for disintegration was 'unification', the terminology of the day for the abolition of the states – which would only have made succession inevitable.

A second weakness lay in the machinery of state. In 1901 the machinery of central government did not exist. It had to be created or improvised. This challenge became more critical in the 1920s as the federal state acquired an ever-expanding range of functions, and resolved to exercise them in a make-believe capital on the Molonglo. A critical element of this machinery – an effective public administration – was painfully lacking.

The four were significant – sometimes decisive – in treating these infirmities of the body politic. Giblin, assisted by Brigden, was crucial in heading off the crisis in Australian Federation. All four were closely involved in the attempt to improve the quality of public administration.

But their involvement in public administration also afforded them a painful lesson: that while good public service is necessary for good government, it is also quite insufficient for good government. The ship of state requires efficient machinery, but to steer a course a pilot is also required. In the late 1930s Brigden and Wilson threw themselves into launching inaugural national legislation on banking and social security, only to see both sink ignominiously. Their projects for economic and social reform were wrecked by the absence of strong political leadership.

## Making Federation work <sup>1</sup>

Giblin's Tasmanian background might have predisposed him to some degree of zeal for the new federal polity. Giblin's father had, as Premier of Tasmania in 1884, taken a leading role in the Sydney convention that established the Federal Council of Australasia. <sup>2</sup> His father's friend and ally Inglis Clarke had a very substantial influence on the constitution of the new Commonwealth of Australia. In both referendums (1898 and 1899) Tasmania had been the most enthusiastic 'Yes' colony. In 1899, 95 per cent of Tasmania had voted in favour of Federation.

Yet Giblin did not share the enthusiasm of his fellow Tasmanians. A few weeks after Federation he told his sister that Federation 'is only a piece of machinery: efficient (if it is efficient) equally for good and evil' (RBA LFG 10 February 1901). This cool, equipoised attitude towards Federation stayed with him.

But for the first 10 years there was no call for anyone's opinions on the Federation to be staked and defended. The financial relations of the states and Commonwealth seem to have been satisfactorily arranged by the Constitution. These arrangements were highly specific in the short run, and perfectly vague in the longer run. For 10 years the custom duties that were to be collected by the new Commonwealth would be distributed to the states, by way of compensation for what was formerly their revenue. And after 10 years? Section 96 provided in a completely general way for the possibility of Commonwealth financial assistance to the states from 1911. These constitutional directives were an expedient that reflected an impatience for federation, combined with a confidence that things would somehow sort themselves out in the end. This confidence was underpinned by a faith that the states would eventually 'converge' economically.

By 1910, a smooth passage to permanent arrangements seemed to have been secured. Each state was to receive the same grant, in *per capita* terms, a policy that seemed sensible in the light of optimism about convergence. Western Australia was, in addition, given a so-called 'special grant' of a continuing nature in 1910, and Tasmania followed two years later.

It was only amidst the travails of the 1920s that, in the minds of smaller states, Federation was transforming from a panacea to a Pandora's box. In 1925 the Tasmanian Rights League appeared, supported by the Hobart Chamber of Commerce and the *Mercury*, to press Tasmania's new sense of grievance. A League of Small States materialised to link the disaffections of Tasmania, South Australia,

<sup>1</sup> Some background for this section is given by the Commonwealth Grants Commission's own history of the body (1995). A scholarly account of the origins of the Grants Commission is provided by May (1971). A more recent history of the evolution federal finance is in Hancock and Smith (2001).

<sup>2</sup> This had its first meeting in Hobart, in 1886

and Western Australia. In 1930 the Women's Non-Party League of Tasmania was established to voice Tasmanian grievances (May 1971, p. 27), and Eilean Giblin was its deputy.

During the 1920s 'the Commonwealth was subjected to a continuous barrage of demands from Tasmania' (May 1971, p. 9). These demands would be met with a request by the Commonwealth to submit a case, which was then referred to an *ad hoc* committee for consideration. Inevitably, this committee's subsequent recommendation was not entirely deferential towards the claimant state. This procedure of specific claim and specific adjudication was one that encouraged ambit claims, and the suspicion of ambit claims.

In August 1926 Giblin proposed an alternative in his Presidential Address to Section G of the Australasian Association for the Advancement of Science <sup>3</sup> (Giblin 1926). The grant-giving procedure might be lifted from political controversy if the decision about a special grant at any point of time 'could be made by Parliament only on the advice of an Economic Committee, with powers and duties corresponding roughly to those of the Tariff Board' (Giblin 1926, p. 158). Two years later Giblin developed this idea before the Royal Commission on the Constitution of the Commonwealth to press the same proposal.

A special grant ... depends to some extent on how loudly a State squeals ... Would not it be better to have a board, somewhat in the nature of the tariff board, with a strong economic flavour to it, consisting as much as possible of professional people, who could look at the thing professionally, and arrive at an unbiased [sic] opinion with reference to the *per capita* payments. (Royal Commission on the Constitution of the Commonwealth, p. 903).

This 'grants board' would be expert, independent, and permanent; it would not be one of those '... temporary Commissions which investigate the affairs of one State once, and then go out of existence'. It would have a 'strong economic flavour'. And, like the Tariff Board, it would be 'extra-constitutional': Giblin's proposed reform did not involve constitutional change. This was no small point to Brigden, Giblin's constant ally on this issue. It was imperative, Brigden believed, to avoid the mistaken 'legalism' of the Federation movement of the preceding generation. As Brigden put it: 'The remedy is not to embroider words into the Constitution, even if the people would consent to it, but to use economic sense which (it may be hoped) will eventually become a common sense' (1931b). This comment represents a marked change in a man who had pinned such hopes on constitutional amendments in 1910, and reflected the priority Brigden now

<sup>3</sup> Giblin wrote to Copland of this occasion: 'Of course, your absence made a big difference. There is nobody else [who] enjoys discussion as you do. Mills and Brigden in different ways discuss it to themselves but don't flow ... (UMA LFG 17 September 1926).

afforded the economic over the legal, and his aspiration to educate the population about the futility of believing that the economic could be altered by legal fiat.

Giblin's proposals were ignored until, under the strain of the Depression, the Federation structure began to creak.

The political chaos and economic distress of the early 1930s reinvigorated the movement to establish a new state in northern New South Wales: New England. In 1932, 'separatists would now come as close as ever to achieving a new state' (Farrell 1997, p. 147). The proposed means were, admittedly, unlawful. An assembly of persons would gather, and presume to pass an 'act' establishing the new state. The precedent of West Virginia in 1861 was cited. A constitution was prepared in readiness. The leader of the Country Party, Earl Page, gave it his blessing.

A more serious threat to the integrity of Federation arose from the campaign of Western Australia to secede. The Nationalist Premier of that state had converted to the cause of 'Westralia' in the face of an aggressive campaign for secession. A referendum was announced. On 8 April 1933 'Westralians' were to be asked: 'Are you in favour of the State of Western Australia withdrawing from the Federal Commonwealth?'. The federal government was not content to gaze. Every elector in Western Australia, South Australia and Tasmania received *The case for union*. Speakers in favour of Federation were dispatched to Perth. But to no avail: 138 653 votes were cast in favour of leaving the Commonwealth, with 70 706 votes against.

The time for action had evidently arrived. A few weeks after the Western Australian referendum in May 1933 a Bill establishing a Commonwealth Grants Commission was passed by the Commonwealth Parliament. Its design was very plainly inspired by Giblin.

This Commission would not be department of the executive, staffed by public servants. Neither was it to have a federal structure, such as the Loan Council. It amounted to the delegation of a power (of recommendation) by the Commonwealth government to an independent body, a 'commission'. The Commission was to consist of three members – a Chairman and two others – who were to be appointed for a maximum of three years. While legislation permitted evidence to be given under oath, its process was to be expert not judicial.

The first appointments to the Commission were made in July 1933. The Chairman was F. W. Eggleston, a lawyer and liberal *philosophe*. Giblin was one of the two other members.

But if this new tribunal was to replace anarchy by order, then some guiding philosophical principles were requisite. Brigden had already stressed that there must be principles upon which to base judgements and recommendations of the Commission. In other words, an intellectual problem underlay the political

problem. There were in Brigden's mind three possible guiding principles: *Relief for Deficits*, *Compensation for Disabilities under Federation*, and what is now known as *Fiscal Equalisation*.

## Relief for Deficits

This speaks for itself, and had been the prevailing touchstone before the Commission had been created. 'If there has been any principle at all, it is a requirement that the recipient state shall be in a chronic condition of revenue deficit' (Brigden 1931b, p. 296).

## Compensation for Disabilities under Federation

This principle stated that Commonwealth should provide financial assistance to compensate a state for any costs suffered as a consequence of Federation. This was a widespread notion and rooted in a popular precept of justice.

The influence of this idea prompted the Tasmanian Government in 1925 to appoint a committee to report on *Tasmanian disabilities under Federation*. Giblin and Brigden were two of the committee's six members, and Roland Wilson was its secretary. The committee's report, written by Giblin and Brigden,<sup>4</sup> contained a detailed discussion of some specific handicaps which federation had imposed on the Tasmanian economy. However, the overall consideration of the advantages and disadvantages did not result in a powerful case for federal assistance for Tasmania. Indeed, there seemed to be no case at all. 'Tasmania received, on the most conservative reckoning, at least some substantial benefit from the relations with the Commonwealth' (UMA JBB 13 May 1929). As Brigden was to try explain to readers of the *Mercury* in 1929: 'the Commonwealth spends less per head in Tasmania than in other States, but it collects still less per head because we have a lower level of income and expenditure'.

Perhaps not surprisingly, therefore, Giblin and Brigden advanced the contention that the criterion, 'Disabilities Under Federation', was too narrow a means for determining the size of the special grant which a state should receive from the Commonwealth. Giblin makes his case by asserting that:

Federation implies responsibility as well as privileges; and if a state is in financial difficulties not of its own making, consideration and help by the Commonwealth as a whole is just as necessary and proper if the cause of them was, e.g., the unexpected working out of her mineral

<sup>4</sup> Brigden: 'I had to draft the thing *in toto*. It has been an awful rush and more especially as I had to explain and fight at intervals, calling in Giblin a couple of times. The pace was so hot that I could not get my drafts before Giblin for criticism. Of course the tables are his, and also a couple of special passages of his have been worked in especially, "war expenditure and taxable capacity"'. Brigden adds: 'The claim [for Tasmania] is for a shocking amount' (UMA JBB undated).

resources, as if they came from entering a form of Federation which was better suited to her neighbours' conditions than her own. (Giblin and Brigden et al. 1925, p. 9).

The case for assistance was now broadened from costs to a state resulting from Federation to any costs to the state 'not of its own making'.

Giblin was to return to this idea and develop it further, some five years later in *The case for Tasmania, 1930*. This document was a response to the newly elected Scullin Government's decision to investigate Tasmania's financial disabilities through a parliamentary joint committee. The committee of 10 authors was constituted by Tasmanian worthies, with Giblin and Hytten appended – who, of course, wrote it. In Appendix J, specifically written by Giblin, 'State Disabilities – with special reference to Tasmania', Giblin pressed a stage further his belief that 'Disabilities Under Federation' was not a satisfactory principle for determining assistance to the states. Giblin gave a second reason for opposing this concept as a guiding principle. Even if compensation for disabilities was desirable, it could not be implemented: '... it is not practically possible to estimate directly the economic cost of tariff policy to Tasmania, and still less possible to translate the cost into the terms of a loss to the State Treasury'. He went on to claim that '... the same is true of other disabilities due to Federation – a direct measure is not possible' (Giblin 1930c, p. 64).

## Fiscal Equalisation

Fiscal Equalisation is the principle that was to win the day, and may be understood as an adaptation to federalism of Louis Blanc's exhortation: 'from each according to his abilities, to each according to his needs'.

In the context of a conglomeration of communities of differing incomes, Blanc's ideal would disallow any principle requiring equal *per capita* contributions to the costs of government. And, as Giblin observed, equal *per capita* contributions was never in fact required of a conglomeration of communities.

No such basis would ever be assumed for contributions to international organizations, such as the League of Nations. When Ireland received Home Rule, not even the bitterest opponent of Irish-Self Government proposed that she be asked to carry any but a very small fraction of her per capita liability for the public debt of the United Kingdom. No agricultural portion of England or any other highly civilized country could possibly pay its share of the expenses of government on a population basis. (Giblin 1926).

In a completely unified fiscal system, Blanc's ideal could be simply achieved by a uniform tax *rate* of incomes across member communities, combined with a flat *level* of government outlays across member communities. But in a system with

both state taxation as well as central taxation, a uniform *federal* tax rate across member communities, combined with a flat level of federal outlays across member communities may not secure this. It would not, for example, if some states had higher tax rates than others. This was, Giblin argued, the case in Australia. He had argued this as early as 1924, when Lyons, the then Tasmanian Premier, had asked Giblin, as Government Statistician, ‘... to make an impartial examination into the severity of taxation in different States of Australia’ (Lyons in Giblin 1924). Giblin responded with a careful and highly detailed estimate, which concluded that Tasmania was the second most severely taxed of the Australian states.

Giblin began by working out state taxation per head for each state, for the fiscal year 1922/23.

**Table 8.1. Giblin’s taxation comparisons**

	State taxation per head, shillings	Taxable capacity	Taxation severity
New South Wales	71.10	1.006	71.5
Victoria	51.2	1.158	44.2
Queensland	84.0	0.789	106.6
South Australia	71.0	1.075	66.1
Western Australia	57.6	0.867	66.4
Tasmania	49.8	0.588	84.5

The first column is not favourable to the suggestion that Tasmania is severely taxed. New South Wales had the largest per capita state taxation, and Tasmania the lowest. But might it not be that the higher-than-average figure for New South Wales reflected a greater-than-average *capacity* to tax? Should not taxation be measured relative to the capacity to tax? The obvious measure of capacity to tax would be income. The ‘severity’ of state taxation would then be measured by state taxes as a proportion of state income. But Giblin maintained that the capacity to tax varied with the *square* of income, on the grounds that taxation did typically vary with the square of income. Thus a measure of taxable capacity equals the square of *per capita* state income, relative to *per capita* Australian income, factored up by 1000. This produces the middle column. The severity of taxation is then defined as taxation relative to ‘capacity to tax’ (so defined). This is shown in the third column where Tasmania now has the second most severe taxation.

As an attempt to establish a particular point of fact – that Tasmania had more severe state taxation – Giblin’s case is questionable. The critical ingredient in the exercise is the assumption of ‘taxable capacity’ varying with the square of

income.<sup>5</sup> If taxable capacity was supposed to vary simply with income, then New South Wales would remain more 'severely' taxed than Tasmania.

But Giblin's principle that, in a federal system, differences in the severity of state taxation would justify differences in federal assistance to states stands or falls independently of any points of fact about Tasmania.

The idea that differences in severity of state taxation would justify differences in the federal system received a louder articulation in Giblin's appendix to *The case for Tasmania, 1930*. There he provided an (admittedly somewhat shadowy) test for determining whether a State was deserving of assistance.

- (1) It should be taxing its people with considerably greater severity than the Australian average.
- (2) It should not be attempting social provision on a more generous scale than the average.
- (3) Its costs of administration should be below the average.
- (4) It should for some years at least have shown moderation and caution in loan expenditure.

If these conditions are satisfied, I submit that the responsibility is on the Commonwealth to make up what is required to enable revenue to balance expenditure. It is not a question of making a contribution towards it. If the above conditions are fairly satisfied, the obligation is on the Commonwealth to make up the deficiency in full as a vital condition for the effective working of Federation.

The thread running through Giblin's precepts is the notion that it is fitting to have the same *level* of *basic* government services across communities, and the same *rate* of total taxation across communities to fund them. Giblin's proposal merely mandated a uniform level of *basic* government services across the states. It did not mandate a uniform level of total government services across the states: states could provide more than basic services if they chose. Even less did his principle mandate a uniform level of *all* goods and services (both public and private) across the states. As Giblin said in *The case for Tasmania*: 'There is, of course, no question of bringing Tasmania up to an Australian level of prosperity by direct help from the Commonwealth' (quoted in May 1971, p. 21). Indeed, Giblin's advocacy of 'fiscal equalisation' was in part underpinned by his

<sup>5</sup> A different attempt to justify the assumption of the 'capacity' to pay varying with square of income would draw on declining marginal utility. The utility cost of a tax burden will vary with the square of income under a certain utility function. If  $U = \alpha - 1/Y$  then  $U(Y) - U(Y-T)$  (= the burden of taxation)

$= \frac{T}{Y^2 - T^2} \approx \frac{T}{Y^2}$  with a tolerable accuracy for low tax burdens.



pessimism about Tasmania's economic performance.<sup>6</sup> Sunny hopes of convergence were illusory. Tasmania could never afford the level of *basic* services which, as a member of Federation, it was entitled to.

The new Commonwealth Grants Commission did not immediately embrace the principle of 'fiscal equalisation': Giblin pressed it against Eggleston's own instincts. Giblin records this conflict in letters to Eilean.

Eggleston's fertile pen is turning out reams of draft report – which is good but won't do – and the only effective way to criticize it is to rewrite it in one third of the space. (RBA LFG 23 May 1935).

A lot of fight and delay over principles. But Eggleston has been very tolerant and prepared to give way even when he is deeply committed. We have an unfortunate difference in mental make up which makes it impossible to harmonise or compromise differences. (RBA LFG 10 July 1935).

Eggleston has been distraught. Pressure of time has rather forced him to accept stuff I have written which he does not agree with, or rather which does not adequately express his views. It is very unfair to him, and most unfortunate. He has been very forbearing, and [at] a meeting today we arrived at a fair working compromise, but I shall have to go hard to live up to it. (RBA LFG 31 July 1935).

Only in the third annual report of the Commission was fiscal equalisation unambiguously recommended.<sup>7</sup> That report contained an illuminating passage in which the slow adoption of the principle was described.

In our first report ... [fiscal equalisation was] adopted tentatively, and with some reluctance, for immediate practical purposes. The general discussion on the principles of grants was not summed up into final conclusions, but left with loose and somewhat contradictory ends.

In our second report we developed the tentative principles of the first, and concluded that the relative financial position of the States, when analyzed with sufficient care and understanding, was the only basis on which special grants should be made.

<sup>6</sup> Giblin was inevitably considered by his fellow Tasmanians a disloyal and callous son.

<sup>7</sup> These quotations lead to a different conclusion from that advanced by Hytten. He wrote: 'How much of this work [of the third report] is due to Giblin, and how much must be credited to the equally keen mind of the Commission's Chairman, Sir Frederic Eggleston, is difficult to say, but the honours may be evenly divided. Giblin was always a good team worker, and a master at compromise where opinions were divided' (Hytten 1951). The existence of a conflict has been noted by May (1971, p. 65).

Further consideration and another year's experience have led us to the following conclusions: Special grants are justified when a State through financial stress from any cause is unable efficiently to discharge its functions as a member of the federation and should be determined by the amount of help found necessary to make it possible for that State by reasonable effort to function at a standard not appreciably below that of other States.

The recommendations of the third report were accepted by the Lyons Government. The Opposition Leader, John Curtin, reported himself to be 'astonished' that a 'responsible government should, at the behest of an external commission, abandon its own policy'. But the task was accomplished. The third report set the principle. Any of the Commissions following the first Commission<sup>8</sup> could have replaced fiscal equalisation had they wished, but none have. The Commission and its use of the fiscal equalisation principle remains a monument to Giblin to the present day.<sup>9</sup>

The present day impact of this principle is illustrated by a comparison of the grants recommended by the Grants Commission with what a *per capita* distribution would yield.

**Table 8.2. Comparison of grants recommended by the Commonwealth Grants Commission with grants implied by a *per capita* schema, \$m, 2005-06**

	Commonwealth Grants Commission	Per capita	Difference	Per Capita Redistribution, \$
New South Wales	13090	15069	-1979	-290
Victoria	9783	11170	-1388	-274
Queensland	9240	8849	390	97
Western Australia	4603	4490	113	55
South Australia	4107	3412	694	449
Tasmania	1672	1076	595	1222
ACT	822	712	103	316
NT	1921	450	1470	7217
Australia	45238	45238	0	

Western Australia is now barely a beneficiary of the principle; but the Northern Territory overwhelmingly is. Something near two billion dollars is currently transferred from New South Wales to the Northern Territory and Tasmania, and

<sup>8</sup> Giblin did not seek re-appointment after his term expired in 1936.

<sup>9</sup> In 1999 the principle received the following articulation by the Commission:

State Governments should receive funding from the Commonwealth such that, if each made the *same effort* to raise revenue from its own sources and operated at the *same level of efficiency* each would have the capacity to provide services *at the same standard*. (Commonwealth Grants Commission 1999, p. 4)

Italics added.

something considerably more than billion is transferred from Victoria and bestowed on South Australia and the remaining states. The 'loss' of Victoria and New South Wales through fiscal equalisation has remained, and has provoked personal attacks on the Commissioners, a mythologisation of its history, and a complete misidentification of fiscal equalisation with the principle of disabilities under federation.<sup>10</sup>

The success of the Commonwealth Grants Commission and its principle of fiscal equalisation calls for some explanation. On the face of it, Giblin's suggestion that an 'independent' Commission of 'experts' would resolve the financial wrestling of the states and Commonwealth seems almost naïve. But some factors behind its success may be hypothesised.

First, the Commission served diplomacy. The states were no longer petitioners seeking charity, or wards seeking the clemency of their guardian. They were equal members of a community.

Second, the Commission reduced wasteful tactics. When property rights are indistinct and contract difficult, the process of negotiation diverts energies from trading possessions towards defending possessions – or coercing them from others.<sup>11</sup> A rule-based system – which amounts to a system of property rights – saves on these activities.

Third, the principle of fiscal equalisation served to reconcile the aspiration to unity and the fact of inequality. It seemed equitable that a state in which state taxation was light received a smaller grant – other things being equal – than one in which state taxation was severe. A Fiscal Commonwealth, like the Lord, 'helped those who helped themselves'.<sup>12</sup> At the same time, it permitted the

<sup>10</sup> A recent Premier of New South Wales has described the Commissioners as 'a select priesthood of obscure and mediocre economists' who could not get jobs anywhere else (*Sydney Morning Herald*, 4 March 2004). At the same time a Treasurer of Victoria claimed of the Commission:

under this outmoded, clapped out system which we've inherited really since the 1920s, Victorians subsidise other states to the tune of more than 1.3 billion dollars each year ... It has got its basis going back 100 years, to when ... back to tariff protection, to when the states that – the agricultural states, you know, Queensland and South Australia and so on – when they thought that they were penalised by the level of tariff protection, particularly in Victoria and New South Wales. (ABC 3 March 2004)

<sup>11</sup> In 1929 the Commonwealth offered assistance to Western Australia on the condition it transferred its north-west portion to the Commonwealth (Hancock and Smith 2001, p. 31). This sort of shakedown could not take place under the Commission.

<sup>12</sup> The effective subsidy to poorer states could be justified in homely terms – as Brigden did – in terms of 'adjusting for handicaps, just as in a race'.

expression of different preferences. It allowed *non*-basic services to be provided and funded by state taxation if the state so chose.<sup>13</sup>

In 1934, the first year of the Commonwealth Grants Commission, the survival of federalism was doubtful. In that year Brigden sensed that federation as it was conceived in 1901 was 'incompatible with the permanent and characteristic policy of the Australian people'. As federalism restricts the power of state, it belonged to 'a different age', and he foresaw 'unwilling progress towards unification' (Brigden 1934). This was not an entirely inaccurate prediction. It is a moot point whether its degree of inaccuracy – or its accuracy – might in significant measure be traced to Giblin and Brigden.<sup>14</sup>

## The machinery of state

A second menace to the Commonwealth lay in the debilitated condition of the central government. In the 1930s the federal public administration was, in Paul Hasluck's words, 'incredibly weak'. This has its roots in three decades of mismanagement.

In 1901 most of the difficulties of the creation of a public administration had been conveniently evaded. The functions of the new federal government were few – post offices, custom houses and a small army – and they were inherited from the colonial governments. They could be just 'rebadged'. But there was a cost to this expedience – the best public servants stayed with the states, and only the 'third tier' of the civil service was willing to risk their careers in a new and puny form of government.

Further, the modicum of planning that legislators did afford the new public service was blameworthy: they deemed only a very modest educational accomplishment was required for general public administration. By law, recruitment into general administration was purely on the basis of an examination that was, as Giblin later put it, 'suitable for the brighter boys of the age fourteen'. Further educational attainment was not only redundant, it was almost impossible since a maximum age for recruits of 16 was initially decreed.

The educational level did not improve with the rapid extension of Commonwealth responsibilities in the post-war world: it deteriorated. After 1918, the Parliament judged that the war veteran was the type most worthy of recruitment into public administration. The veteran was exempted from the standard examination and required to pass only a less difficult one. The age maximum was far more generous for veterans, 51 rather than 23. The health requirements were also less

<sup>13</sup> Brigden proposed a federal regime of taxation, with the states permitted surcharges on income tax. This system was implemented in 1976.

<sup>14</sup> Copland was not as involved as Giblin and Brigden. But he reported the development of Fiscal Equalisation in papers in the *Quarterly Journal of Economics*, and elsewhere (Copland 1937b).

demanding. These concessions had an impact. Between 1918 and 1932, only 49 youths were recruited by the standard examination, rather fewer than four per year. Over the same time span, 1031 veterans were recruited. But these veteran recruits did not, as a rule, flourish: by 1939 no veteran had risen to a 'senior appointment'. In the word of the historian of the Commonwealth Public Service, the recruitment policies in the inter-war period were 'disastrous' (Scarrow 1957).

Giblin would have been aware of similar problems in the service of the Tasmanian Government: 'Youths were needed but were largely precluded from employment' (Robson 1983, vol. 2, p. 463).<sup>15</sup> As Tasmanian Statistician in the early 1920s, Giblin had shepherded four junior officers in the public service through Bachelor of Commerce degrees at the University of Tasmania, and had arranged for their fees to be paid on the condition they stayed in the service for five years. Presumably Giblin obtained a more vivid view of the problems of the Commonwealth Public Service when appointed Acting Commonwealth Statistician in 1931. He quickly resolved to break down the barrier to young graduates and admit the first person with a university qualification to general administration in the Commonwealth Public Service. He would use his star pupil: Roland Wilson, BA, DPhil, PhD. He persuaded Sir Harry Sheehan, the Secretary to the Treasury, to appoint Wilson for six months from February 1932 as an 'economics adviser'. How this was done is a mystery: it seems plainly to contravene the legislation, as Wilson was twenty-eight years old. The massive destruction of Treasury files from the period will ensure that this remains a mystery. But, somehow, it was done.

Still, the appointment itself did not clinch victory. 'The thought of bringing a graduate into the Treasury was a very novel and unpopular idea at that time' (Wilson 1984), and it was considered prudent to place Wilson into the Bureau of Census and Statistics 'out of sight of Treasury officers'. Regrettably, the officers in the Bureau seemed to have no more liberal an outlook. On the first day of his appearance in the Bureau, its workforce initiated a sit-down strike in protest.

A more systematic solution for reform was required. For several years there had been a pressure to relax the *de facto* prohibition on graduates. The British Economic Mission of 1928 had favoured doing so, as did the universities, and the University Association of Canberra. In addition, the Commonwealth Bank, with a very similar recruiting regimen to the Commonwealth Public Service, had actually gone so far as to employ a single graduate in 1931 – Leslie Melville.

<sup>15</sup> The State public services had never become quite the sanctuary for war veterans that the Commonwealth's had become. Nevertheless, in June 1930, 38 per cent of the permanent staff of the Tasmanian Public Service were returned soldiers.

Giblin entered the fray with his paper, 'The recruiting of the public service' (Giblin 1929). In Britain, Giblin pointed out, the senior rank of the public service is 'enlisted from men with the highest University qualifications ... the first class final honours at Oxford or Cambridge'. In Australia, by contrast, 'practically all vacancies in the Clerical Division of the Commonwealth service have been filled by returned soldiers, from whom no higher test has been required than reading, writing and very easy arithmetic'. As result of this 'criminal short sightedness', 'the service has become the dumping ground of returned soldiers who have failed to make a living in any other way'.

Giblin proposed that 10 graduates per year be recruited. Within 30 years, nearly all of the 300 senior ranks would be graduates. To stimulate this, some suitable 'cadets' would be financed to attend university, while still performing some duties in the service. Within four years of completing their degree, they would be paid £500.

The *Commonwealth Public Service Act 1933* was the fruit of these proposals, and invoked the first modest relaxation of the bar to graduates. The relaxation amounted to permitting a graduate to be recruited up to the age of 25. But that was all. No other concession was made. There was no 'graduate loading' which Giblin plainly wanted: they would be paid exactly as the others. The graduates were to begin at the bottom of the hierarchy. They must also have their degree from an Australian university, a worthless restriction. Finally, a limit was placed on graduate appointments: no more than 10 per cent of the intake.

Despite the modesty of the legislation, it was opposed by both Lang and non-Lang Labor factions in the House of Representatives. 'The Labor left still regarded university training in the main a privilege of the wealthy'(Sawer 1963). Giblin had tried to assuage such sentiments: he pointed out that eight of 13 Cambridge graduates recruited into the British civil service that year had received their secondary education in government schools. In the Senate one Labor MP voted in favour, mentioning his student nephew. The more salient passion was not hostility but fear: 'Labor as a whole reflected the fear of the public service unions that such recruitment would block promotion of those who rose from the ranks' (Sawer 1972, p. 55)

But a signal had been given. Recruitment began in 1934 and between 1934 and 1941 about 10 per year were accepted, or around the number Giblin had envisioned.<sup>16</sup> Regrettably, this slow pace was overtaken by the war, and at its outbreak, 16 of 24 Permanent Heads had no tertiary qualifications (Scarrow 1957).

<sup>16</sup> All graduate recruits were men. Women could only be appointed as 'short-hand typists'.

Perhaps more immediately useful than legislation was the intersection of the four with the dapper figure of Richard Casey – Baron Casey of Berwick and of the City of Westminster, engineer, aviator, Bruce protégé, Antarctica enthusiast, man about town, and from 1935, Treasurer.<sup>17</sup>

Casey found ‘economic experts’ congenial. The first of the species he became acquainted with was T.E. Gregory, during the professor’s 1931 tour of inspection: ‘a temperamental Jew’ he told Bruce, ‘with almost every superficial demerit possible, but with great fundamental intelligence and knowledge’ (NAA RGC 17 March 1938). With Gregory’s departure, Casey turned to the local varieties.

He was quick to court a little band that encompassed much of the locally available expertise: E. O. G. Shann, D. B. Copland, L. F. Giblin, Roland Wilson, Leslie Melville. He thought highly of them, read their papers, talked to them, corresponded with them. He came to regard Shann as a personal friend, and he held in especially high regard the younger Melville and Wilson. (Hudson 1986, p. 99).

His ‘especially high regard’ for Wilson arose from Wilson’s performance as the newly appointed Commonwealth Statistician. Casey was originally inclined to appoint a Briton to fill this post, but was persuaded by Giblin that Wilson was ‘the obvious man’. ‘In Wilson, Casey found a mind he could respect, and an undisguised expertise of which he was occasionally wilfully sceptical but more often in awe’ (Forster and Hazlehurst 1988, p. 73).

Casey’s interest in ‘the experts’ was sharpened by the poverty of the public service who worked under him. ‘There are very few men in the service I would like to have’. When a British official was seconded to his department, he declared: ‘It has been a revelation to me to have a first-rate civil servant to work for one – and it convinces me that Ministers in England must live a sheltered and pampered life – as compared with our lives here’.

Consequently, when in 1935 the prospect arose of Wilson resigning in order to fill the vacant chair at the University of Tasmania, ‘Casey was aghast (“I could not contemplate losing Wilson”) and he persuaded Cabinet to make Wilson as well [as Commonwealth Statistician] an adviser to the Treasury so that his salary would total what was needed to keep him in Canberra’ (Hudson 1986, p. 99).

Under Casey, Wilson was to expand the earlier efforts to improve the quality of public service. ‘If you wanted a book’, Wilson later recalled, you had to tell the librarian ‘what size it was, how thick, what colour the binding was, then he’d bring you three or four to pick from!’. Wilson arranged to appoint the first

<sup>17</sup> Richard Casey (1890–1976) was elected as a UAP member of the House of Representatives in December 1931. From 1933 to 1940 he held various ministerial portfolios, and in January 1940 he was appointed the first Australian Minister to the United States.

female librarian into the Commonwealth Public Service. He also ultimately succeeded in creating the category of Research Officer to hasten the absorption of graduates.

## Banks and social security

Casey was to rely on Wilson in a noisy and futile battle to impose on banks the kind of regulation that, in the mid-century, was imagined to be necessary to rational economic management. The background was the Royal Commission on Banking and Monetary Policy (January 1936–July 1937) which had manifested a general unease at the banking policy during the Great Depression. Something had to be done. Requiring the trading banks to lodge a minimum level of deposits at the central bank seemed in order. Expert opinion to the Commission was mixed. While Copland had favoured them in print (1937a), Giblin was unimpressed by the idea. Brigden declined to subscribe to any theories of control, and favoured gradual accretion of specific measures and powers of persuasion. Conceding no more than that compulsory minimum deposits might one day be desirable, Brigden suggested to the Royal Commission that such powers should be held in reserve until such time as the Commonwealth Bank of Australia considered it advisable to apply to Parliament for their temporary deployment. To Wilson, compulsory deposits ‘would be of little use as an instrument of credit’.

But compulsory deposits became a symbol to Casey, and to the banks, of the Commonwealth’s right to manage the banking system. Wilson was assigned to formulate a Trading Banks Bill.

Casey told Bruce: ‘The Trading Banks will give vent to piercing screams when the contents of the Banking Bill are made known to them’ (NAA RGC 17 March 1938). Presumably because of those screams, Cabinet hesitated to back the draft. Banking legislation ‘has really given me a headache’. At the close of 1938 the Trading Banks Bill was postponed. In May 1939, the Bill was watered down to remove licensing of banks, and enabling banks to fall below their ‘required’ reserves for a period of 13 weeks without penalty, and for any length of time beyond that with penalty (Sutherlin 1980, p. 268). Even this version was allowed to lapse. No Trading Banks Bill was ever passed.

Years later Wilson was to comment that Casey was a more efficient engineer than politician. The insufficiency of an expert public service in securing reform had been made plain by Casey’s conduct.

The same lesson was to be taught in even more painful terms to J. B. Brigden, in the fiasco over national insurance, perhaps the greatest legislative busted flush of the Australian Commonwealth.

Australia’s old age pension system had never been a contributive scheme. It had been funded directly from general revenue since its introduction in 1908 by



Alfred Deakin. Anxiety about the potential burden of its unfunded liabilities had been heightened by the fiscal crisis of the Depression. In October 1932 the Auditor-General produced a contributory plan for pensions. L. F. Giblin with H. C. Green had found fault with this proposal. But the Depression also produced a slump in the birth rate, which raised the spectacle of a shrunken working-age population being burdened with financing an un-reduced pensions bill. Casey observed that the proportion of the population over 65 had tripled since 1888, and if these trends continued, then by 1978 there would be 54 old age pensioners for every 100 workers. A continuing budgetary discomfit also harmonised with a current of thought which saw social insurance 'as an instrument which secured intra-class harmony by means of genuine reforms and State supervision whilst leaving the individualist ethos in place in the principle of individual contributions' (Watts 1983).

The time for a contributory scheme of social entitlements had come. In 1937 the Lyons Government declared itself for a scheme that imposed small compulsory weekly contributions on all low-to-middle income employees – amounting to about 1.65 percent of average weekly earnings – to fund sickness, medical and retirement benefits. This scheme of 'national insurance' would require a 'scale and complexity of legislation and administration rare in the Australian context' (Watts 1983, p. 129). It would be, in Brigden's words 'the most ambitious financial project put forward under any national insurance scheme I have been able to discover' (Brigden 1939b p. 147).

National insurance would need a commission to run it, and the commission would need a head. But whom? Casey complained to Bruce: 'As you will realize, the range of choice amongst our existing public servants is limited'. Only one of the heads of the public service was deemed desirable: the Secretary of the Treasury, Harry Sheehan. And that welcome opportunity had vanished, Casey told Bruce, when a Commonwealth Bank officer 'appeared on my doorstep in Canberra last week, breathless with excitement ... After shutting all the doors and windows, he broke me the news to me that the Board were unanimous in recommending that Sheehan be appointed Governor [of the Commonwealth Bank]' (NAA RGC 17 December 1937).

The very paucity of the above led me to try to think of people outside the existing public service. This led me to think of the names of Brigden (Economist and in charge of the Bureau of Industry in Brisbane; now getting 2,000 pounds a year from Forgan Smith), Copland (in charge of the School of Economics in Melbourne and getting from all sources probably about 1,750 pounds per year), and Giblin. (NAA RGC 17 Dec 1937).

Figure 8.1. Giblin at his desk



Figure 8.2. Brigden at his desk



Figure 8.3. Copland at his desk



Source: ANU: UA2000/15, Envelope 44, L13351

**Figure 8.4. Wilson at his desk**





Giblin told Casey his own appointment was 'out of the question' but suggested Copland 'would be an admirable choice'. Casey took Copland's name to Cabinet, which was a 'little stunned', but offered no opposition. 'He is rather keen about the prospect' (NAA RGC 17 December 1937). But Copland was not appointed. Either a 'stunned' cabinet collected itself, or Copland became less keen, due to the emergence of the real possibility of his being appointed Vice-Chancellor of the University of Melbourne.

Giblin told Casey that Brigden was 'the obvious economist', and Brigden was appointed 'Director' of National Insurance on 14 February 1938. On 6 July 1938, the day the Bill received vice-regal assent, Brigden was deemed 'Commissioner of National Insurance'.<sup>18</sup> Brigden and his colleagues then 'began an exhausting round of conferences and interviews only five days after the NIC was established'. A promotional campaign was launched on 11–12 July 1938 in the Albert Hall in Canberra. 'Throughout July and August Brigden had a whirlwind itinerary which took him to each capital city in a little over a month' (Watts 1983, p. 187). Every major trade union and friendly society was visited;<sup>19</sup> 1.7 million pamphlets were issued.

On 5 September Brigden declared: 'National insurance was no longer a dream ... it is here' (*The Age*, 6 September 1938). National Insurance was, in fact, not there. It would not be there until 1 January 1939, and a diverse array of adversaries was striving to stop it.

These adversaries included ideological opponents. National Insurance embodied what might be called the principle of 'compulsory thrift'; the poor will be compelled to help themselves.<sup>20</sup> By contrast, the Labor Party, and the left in general, favoured what might be called 'compulsory charity'; the rich will be compelled to help the poor. This genuine ideological stance could be nicely pegged on a commonplace vexation at compulsory contributions, and a buzzing profusion of small groups attacked the Commission. Thirty-one thousand protest letters were dispatched by representatives of the State Electricity Commission of Victoria. Social Credit claimed to have sent 20 000 letters. G. P. O'Day, the 'red doctor', and author of *Why you should join the Communist Party of Australia*, became 'a tireless speaker against the legislation at countless suburban meetings organized – often by CPA members' (Watts 1983).

<sup>18</sup> Brigden was replaced at the Bureau by Colin Clark, who had been brought to Australia by Copland in 1937 to lecture at the University of Melbourne (Healy and McFarlane 1989).

<sup>19</sup> 'Our ageing population ... is a serious problem, one which cannot be treated lightly. Whereas to-day for every person of pension age ... there are four people of working age, in forty years time the latter figure shall be halved' (Brigden 1939b, p. 147).

<sup>20</sup> The contributions would be matched by contributions by employers. This would surely be passed on in time in the form of lower wages.

In addition to these 'ideological' opponents were certain, not necessarily less noble, interested adversaries. General practitioners were dissatisfied. There was to be no 'fee for service' but only a not very large flat annual sum for every patient. Their representatives spent from May 1938 to mid-1939 white-anting the bill. Business groups were also hostile to National Insurance, as they would be required to match the contributions of employees (Hudson 1986, p. 105). At the same time farmers were unsympathetic because they were exempted from its benefits.

Brigden fought the propaganda battle. Thirteen Bulletins were issued by the National Insurance Commission in August 1938, along with 'frequent radio broadcasts', and by December 1938, over one million copies of the pamphlet, *What national insurance means to the wage-earner, his wife and children*, were distributed. Brigden directed his own staff to compose letters to the editor. Two-minute film ads by worthies of the day, including Ernest Bevin, were organised.<sup>21</sup>

It was not all lure and beguilement. Brigden also publicly attacked the means test.

I feel very strongly on that means test. I think in Australia the means test is a serious problem. It should not be taboo. Is it a fact that the Australian habit of concentrating public assistance ... tends to increase the number of persons in necessitous circumstances? I will not say that it increases the cadgers and scroungers of the country: I would rather let other people use those words. Like the problem of soil erosion, it involves the problem of the erosion of national character. (Brigden 1939b, p. 150).

The battle was wearing. 'National insurance has been a tremendous grind' wrote Casey. Brigden told a public audience that national insurance was proving 'extremely difficult', thanks to the late start, and the elevation of perfection above improvement. 'It may be too ambitious' (Brigden 1939b p. 147). He was frustrated by the lack of public interest. 'The intellectuals in Australia have taken the faintest possible interest in national insurance ... intellectuals do not care whether the cow calves or breaks its Australian neck' (Brigden 1939b, p. 149).<sup>22</sup>

Brigden and Casey were struggling to avoid retreat. Brigden devised a scheme to include farmers, but this was rejected by Treasury. Brigden had 'a key role

<sup>21</sup> No trace of them has survived. Two film clips of Casey are extant.

<sup>22</sup> One historian of the welfare state wrote: 'Brigden was at least one of the few people that kept up with contemporary thinking on the subject...There was elsewhere singularly little interest shown 'in the general principles of social insurance' (Kewley 1965, p. 165).

Figure 8.5. One of 1.7 million pamphlets issued to win public favour for the ill-starred National Insurance scheme

331.2544094  
NUS

Here are the Answers to a few Questions about NATIONAL INSURANCE

*What happens if I get out of work?*

National Insurance is not unemployment insurance; that must come later. All contributions cease when a man is out of work; they are paid only when he is working again. A free insurance period during unemployment covers him up to 21 months or more for all benefits for which he is qualified. Even if insured for only a week before getting out of work, he will at least receive free doctor and medicine during the free insurance period.

*What about my lodge membership?*

National Insurance provides free doctor and medicine for the wage-earner, but not for his wife and family. It is probable that lodge subscriptions will be adjusted to enable the worker to keep his family covered. Continuing his lodge membership does not affect his National Insurance benefits. He will be entitled to receive benefits of both.

*Does change of work-place or residence affect my benefits?*

National Insurance benefits are the right of every insured person and are available throughout Australia. The worker carries his right to insurance benefits with him from job to job and from State to State, wherever he may go in the course of his work.

*What happens when my salary passes £365 a year?*

Manual workers remain in insurance no matter what their earnings. Clerks and other non-manual workers are compulsorily insured only while receiving not more than £365 a year. If, after being in insurance for a year or more, their earnings exceed £365, they may continue as voluntary contributors. By paying the joint contributions they may remain covered for all benefits except free doctor and medicine. If a man does not become a voluntary contributor, he will be entitled to a free insurance period during which he will receive all benefits for which he has qualified.

*What is the position of a girl who marries?*

The average young woman will have drawn on medical benefits and sick pay while working. On marrying, after being insured for four years or more, any woman may become a voluntary contributor for pension only. For a contribution of 1/6 a week thereafter she would be entitled to a pension of £1 a week (or £1 1/6 a week for those insured onwards) (on the average yielding £690). If, later, she should receive the insurance widow's pension, that benefit would be paid in addition to her own pension. If she does not become a voluntary contributor, she will be entitled to a free insurance period.

*What steps should I take to enrol?*

YOU SHOULD ENROL WITH AN APPROVED SOCIETY WITHIN THE NEXT FEW WEEKS. List of Societies are available at all Post Offices. You may choose whatever Society you wish. There is no entrance fee. But you must enrol to ensure payment of your benefits. If there is any point upon which you desire information, call or write to the offices of the National Insurance Commission.


DEPUTY COMMISSIONER OF NATIONAL INSURANCE  
Philip House, Phillip St., Sydney

District Inspectors at LISMORE, ARMIDALE, DUBBO, NEWCASTLE,

331.2544094  
NUS

What National Insurance Means . . .

To the Wage-Earner, his Wife and Children





in negotiations with doctors' seeking to reconcile them (Watts 1987, p. 17). In November Brigden persuaded Casey that implementation should be delayed from January until April 1939. 'Casey may well have been working ... with Brigden on a fall back position' (Watts 1983). But restless political forces were closing in on the wounded prey. In February 1939, Earl Page, very lightly discarding the principle of Cabinet unity, publicly urged scrapping the legislation. In a drastic rescue measure, on 15 February 1939, old age pensions were dropped from the scheme, and unemployment benefits introduced.

It was to little effect; Lyons was not backing National Insurance. In truth he had made it known in 1938 that he did not want the legislation passed, and only agreed to its passage in the face of Casey's threat to resign (McLachlan 1948, p. 253). Lyon's sudden death on 7 April 1939, therefore, may have appeared as an opportunity. Had not Menzies actually resigned in March, in protest over Lyons' lethargy over National Insurance? But any such hopeful expectation was soon disappointed. As Wilson remarked later concerning these events, Menzies was never really interested in economics 'unless it was going for him' (quoted in Sutherlin 1980, p. 270).

Casey, Menzies' only rival, was removed from Treasury. The national insurance legislation was suspended in June 1939. And Brigden 'came close to a complete physical break down' (Watts 1983, p. 134). He remained the commissioner of a non-existent commission. To relieve 'the embarrassment of Brigden's position', he was appointed secretary to the newly created Department of Social Services. This was accomplished on 29 August 1939. The passage of a few days was to make the issues of social services less urgent.